

File

K I L E M B E

COPPER COBALT LTD.

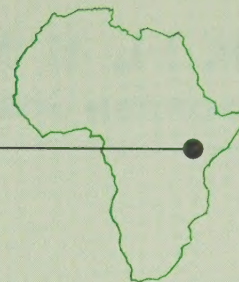


annual report

1 9 6 8

REVIEW IN BRIEF

	<u>1968</u>	<u>1967</u>
Tons milled	1,021,578	953,090
Tons direct smelted	5,592	8,913
Total tons treated	1,027,170	962,003
Grade ore milled	1.85	1.91
Blister copper produced —		
long tons	15,351	14,198
Sales of metals	\$20,641,000	\$17,927,000
Operating profit	\$ 6,579,000	\$ 5,027,000
Net earnings	2,426,000	599,000
Earnings per share	\$.62	\$.15
Average selling price, copper per pound	60.4¢	56¢



HEAD OFFICE

7 King Street East, Toronto, Canada

OFFICERS

G. T. N. WOODROOFFE	-	-	-	-	President
G. P. MITCHELL	-	-	-	-	Vice-President
A. C. CALLOW	-	-	-	-	Secretary
J. T. McWHIRTER	-	-	-	-	Treasurer
J. D. KRANE	-	-	-	-	Controller

DIRECTORS

E. L. HEALY	J. T. McWHIRTER
G. P. MITCHELL	J. R. SMITH
G. T. N. WOODROOFFE	

**TRANSFER AGENTS
AND REGISTRARS**

CROWN TRUST COMPANY	
302 Bay Street, Toronto, Ontario	393 St. James St. West, Montreal, Quebec
REGISTRAR AND TRANSFER COMPANY	
140 Cedar Street	- - - New York 7, N.Y.

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Toronto, Ontario

AUDITORS

CLARKSON, GORDON & Co., Toronto, Ontario

SOLICITORS

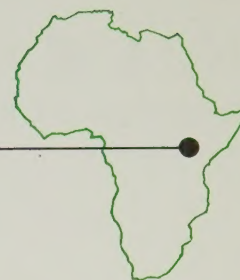
TILLEY, CARSON, FINDLAY & WEDD, Toronto, Ontario

**KILEMBE MINES
LIMITED**

Head Office, Kilembe, Uganda
Chairman of the Board and
Managing Director - - - A. E. PUGSLEY

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, April 2, 1969 at 10.30 a.m. (E.S.T.)
Elizabeth Room, King Edward Sheraton Hotel
Toronto, Canada



REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

Operating results of your Company and its subsidiary, Kilembe Mines Limited, showed improvement in several respects over those of the previous year.

Net earnings rose to \$2,426,179 or 62 cents per share compared with \$598,946 or 15 cents per share in 1967. Production of blister copper increased by 7 per cent, while the tonnage of ore delivered from the mine and mill tonnage were also higher.

PRODUCTION

Mining

The tonnage of ore delivered from the mine was 1,028,203 short tons, an increase of 54,466 short tons over the previous year.

There was a continual improvement in mining operations and efficiencies. Actual output more closely approached planned production for the year and many of the innovations to improve work methods, which were programmed in 1967, are now fully operative.

Milling

Mill tonnage increased from 953,090 tons in 1967 to 1,021,578 tons; however the ore grade was lower at 1.85% compared with 1.91% in the prior year. Among the factors in this regard was a decrease in the available tonnage of high grade ore from the Northern Ore Deposit.

Recovery of copper in concentrates was 91.46% compared to 91.81%, while the concentrate grade decreased from 28.6% to 27.7%. Alterations to the circuit in the latter months of 1968 had beneficial effects on the recovery of copper and the grade of the concentrate.

The ratio of pyrite to chalcopyrite increased materially due to greater tonnages of high pyritic ore from Bukangama. This increase affected copper recovery during the first eight months of the year.

Smelting

Blister copper production increased from 14,198 long tons to 15,351 long tons. There were no operating problems at the smelter.

FINANCIAL

The increase in blister copper production and the improvement in the price received for copper were the principal factors contributing to the increase in earnings over those of the previous year.

The average price per pound received in 1968 was equivalent to 60.4¢ Canadian compared to 56¢ Canadian in 1967. All copper was sold on the basis of the London Metal Exchange average monthly selling price which fluctuated during the year from a high of £624.08 (71¢ Can.) in February to a low of £382.56 (43¢ Can.) in July.

Although production costs increased somewhat, they are considered reasonably satisfactory in the light of the inflationary trends in all stores and equipment purchases and in labour costs during 1968.

Expenditures on fixed assets were increased substantially. The principal expenditures were for mining equipment, housing and amenities, and special surface works.

Dividends totalling 60 cents per share were paid during the year compared to 25 cents per share in 1967.

Working capital at year end amounted to \$2,820,483 compared to \$3,008,963 for the prior year. The current year's working capital position included \$3,000,000 held in U.S. dollar fixed deposits by the parent company.

ORE RESERVES

Ore reserves at year-end were as follows:

	1968		1967	
	Tons	% Copper	Tons	% Copper
Proved	4,892,000	1.92	4,727,000	1.99
Probable	1,274,000	2.34	1,870,000	2.20
	<u>6,166,000</u>	<u>1.99</u>	<u>6,597,000</u>	<u>2.05</u>

In addition there were 1,846,000 tons of material carrying 1.97% copper (1967 — 1,661,000 tons of 1.97%) which could be classed as possible ore.

Ore mined during the year totalled 1,022,000 tons.

The most attractive areas for potential development of additional ore reserves are below the 4050-foot level and in the Buhunga area. Development work in these areas will be carried out in 1969.

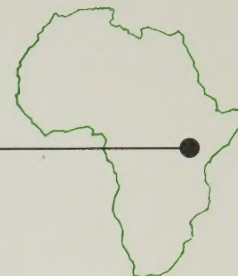
EXPLORATION AND DEVELOPMENT

Underground exploratory drilling and surface exploration drilling in all areas totalled 92,985 feet compared to 84,924 feet during the previous year.

At Bukangama, drilling outlined a low grade zone of mineralization near the surface. The Buhunga drilling continued to be encouraging and good progress was made in exploratory drives into the Buhunga area southeast of the mine. This area gives promise of being a source of a considerable tonnage of ore in the future.

Intensive exploration programs comprising Induced Polarization, geophysical, geological and geochemical work were carried out in other areas, and the results of this work are now being evaluated.

Development work of all classes totalled 50,711 feet compared to 54,300 feet in 1967. The shortfall was attributable partially to hoisting problems and rearrangement of development programs.



CAPITAL EXPENDITURES

The expenditure on construction and replacement of fixed assets is summarized as follows:

Mining and milling equipment	\$ 894,771
Housing and amenities	459,729
Special surface work	470,100
General equipment and building	228,852
	<u>\$2,053,452</u>

EXPENDITURES IN UGANDA

Cash expenditures by Kilembe Mines Limited for operating and capital account during 1968 totalled U£4,550,200 (\$13,650,600) of which expenditures in Uganda were as follows:

Wages	U.£ 1,470,200	\$ 4,410,600
Purchases from local suppliers and contractors	1,850,800	5,552,400
Payments to Government agencies for electricity, freight, telephone, licenses, etc.	545,400	1,636,200
	<u>U.£ 3,866,400</u>	<u>\$11,599,200</u>

In addition Uganda taxes and royalty amounted to \$1,279,000.

PERSONNEL

There is a dearth of technically trained personnel in Uganda and despite an active training program it will take time for the situation to improve materially. The under-supply of artisans is further aggravated by the departure from Uganda of many highly experienced and well qualified Asians.

There was no labour unrest during the year and the supply of unskilled labour available was in excess of requirements; turnover and absenteeism improved.

OUTLOOK

Planned production for 1969 is between 10% and 15% higher than for 1968. Provision is being made for shaft sinking and deepening in various sections of the mine. It is not expected that the present prices of copper will continue during the whole of 1969 so that the average price per pound which we receive for copper will be less than in 1968. The combined result of these factors means that earnings for 1969 may be less than in the year just past.

ACKNOWLEDGMENT

Your directors gratefully acknowledge the efficient services rendered by Mr. A. E. Pugsley, Chairman of the Board and Managing Director of Kilembe Mines Limited, and his capable staff.

On behalf of the Board,

Toronto, Ontario,
February 19, 1969.

G. T. N. WOODROOFFE,
President.

STATEMENT OF SOURCE AND APPLICATION OF CONSOLIDATED FUNDS

For the Year Ended December 31, 1968

	<u>1968</u>	<u>1967</u>
FUND PROVIDED:		
From operations —		
Profit for the year before minority interest	\$3,416,074	\$ 844,106
Add charges to operations which in themselves did not require a current outlay of cash:		
Amortization of mining concessions		43,764
Amortization of development and preproduction expenses		694,904
Depreciation	1,653,470	2,311,440
	<u>5,069,544</u>	<u>3,894,214</u>
Decrease (increase) in inventory of materials and supplies	426,788	(707,595)
	<u>5,496,332</u>	<u>3,186,619</u>
FUNDS APPLIED:		
Purchase of fixed assets (net)	1,819,596	1,407,213
Dividends paid to minority shareholders of Kilembe Mines Limited	1,539,000	386,289
Dividends paid to shareholders	2,326,216	969,257
	<u>5,684,812</u>	<u>2,762,759</u>
Excess of funds provided over funds applied (funds applied over funds provided) during the year	(188,480)	423,860
Working capital, beginning of year	3,008,963	2,585,103
Working capital, end of year	<u>\$2,820,483</u>	<u>\$3,008,963</u>

See notes to consolidated financial statements

KILEMBE

COPPER COBALT LTD.

(Incorporated under the laws of Canada)

AND ITS SUBSIDIARY

KILEMBE MINES LIMITED

(Incorporated under the laws of Uganda)

CONSOLIDATED BALANCE

ASSETS

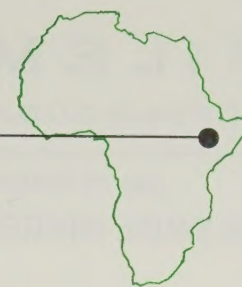
	1968	1967
CURRENT:		
Cash	\$ 903,472	\$ 1,705,741
Short term deposit	3,225,000	1,893,281
Metal settlements receivable (note 2)	1,592,120	928,976
Accounts receivable	345,649	420,208
Copper on hand and in process (note 2)	275,811	475,183
Total current assets	<u>6,342,052</u>	<u>5,423,389</u>
 FIXED AND INTANGIBLE ASSETS:		
Mining concessions, at cost, less accumulated amortization	<u>1</u>	<u>1</u>
Plant and equipment, at cost	27,633,078	25,813,482
Less accumulated depreciation	<u>19,458,270</u>	<u>17,804,800</u>
	8,174,808	8,008,682
Materials and supplies, at average cost	4,030,312	4,457,100
	<u>\$18,547,173</u>	<u>\$17,889,172</u>

AUDITORS

To the Shareholders of
Kilembe Copper Cobalt Ltd.:

We have examined the consolidated balance sheet of Kilembe Copper Cobalt Ltd. and its subsidiary, Kilembe Mines Limited, as at December 31, 1968 and the statements of consolidated earnings and deficit and source and application of consolidated funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
January 29, 1969.



STATEMENT — DECEMBER 31, 1968

LIABILITIES

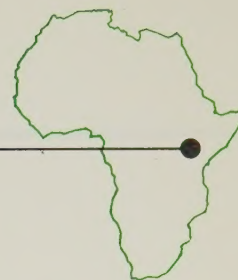
	1968	1967
CURRENT:		
Accounts payable and accrued charges	\$ 1,433,227	\$ 1,338,822
Provision for leave pay and passages	242,041	269,890
Provision for Uganda mining royalties (note 3)	101,733	33,319
Provision for Uganda copper export taxes and income taxes (note 3)	1,744,568	772,395
Total current liabilities	3,521,569	2,414,426
Minority shareholders' interest in subsidiary company (30%)	3,516,715	4,065,820
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized: 5,000,000 shares of par value \$1.00 each		
Issued: 3,877,027 shares	3,877,027	3,877,027
Contributed surplus	8,193,887	8,193,887
	12,070,914	12,070,914
Deficit	562,025	661,988
	11,508,889	11,408,926
On behalf of the Board:		
G. T. N. WOODROOFFE, Director.		
J. T. McWHIRTER, Director.		
	\$18,547,173	\$17,889,172

See notes to consolidated financial statements

REPORT

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.,
Chartered Accountants.



AND ITS SUBSIDIARY

KILEMBE MINES LIMITED

STATEMENT OF CONSOLIDATED EARNINGS AND DEFICIT

For the Year Ended December 31, 1968

	1968	1967
Revenue from metal production	\$20,640,921	\$17,927,358
Deduct transportation, refining and selling expenses	1,538,427	1,683,187
Net revenue from metal production	19,102,494	16,244,171
OPERATING AND ADMINISTRATION COSTS:		
Development, mining, milling, smelting and mine office administration	12,462,196	11,159,974
Parent company administration	61,036	57,167
	12,523,232	11,217,141
Operating profit before the undernoted items	6,579,262	5,027,030
Amortization of mining concessions		43,764
Amortization of development and preproduction expenses		694,904
Depreciation	1,653,470	2,311,440
Prospecting and exploration expenses	366,681	178,086
	2,020,151	3,228,194
Operating profit	4,559,111	1,798,836
OTHER INCOME (EXPENSE):		
Interest (net)	207,782	186,310
Loss on foreign exchange	(71,397)	(130,201)
	136,385	56,109
Profit before Uganda mining royalties, copper export taxes and income taxes	4,695,496	1,854,945
Provision for Uganda mining royalties, copper export taxes and income taxes (note 3)	1,279,422	1,010,839
Profit before minority shareholders' interest	3,416,074	844,106
Less minority shareholders' interest in profit of subsidiary	989,895	245,160
Earnings for the year (note 3)	2,426,179	598,946
Deficit, beginning of year	661,988	291,677
	1,764,191	307,269
Deduct dividends paid of \$0.60 per share (1967 — \$0.25)	2,326,216	969,257
Deficit, end of year	\$ 562,025	\$ 661,988

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1968

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kilembe Mines Limited (incorporated under the laws of Uganda) which is 70% owned and is the only company in which Kilembe Copper Cobalt Ltd. has a material direct or indirect interest.

Most of the income of Kilembe Mines Limited has been received in U.S. dollars and the expenditures have been incurred in pounds sterling or in Uganda currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following basis:

Fixed and intangible assets and share capital	At the rates of exchange prevailing when the transactions giving rise to such items occurred.
Accumulated provisions for depreciation and amortization	At rates of exchange based on those prevailing when the expenditures on the related fixed and intangible assets were made.
Other assets and liabilities	At the closing rates of exchange prevailing at the end of the year.
Revenues and expenses other than depreciation and amortization	At the average of monthly rates of exchange in effect during the year.
Provisions for depreciation and amortization	At the rates of exchange prevailing when the expenditures on the related fixed and intangible assets were made.

2. INVENTORY OF COPPER

Copper on hand and in process consists of copper concentrates in process of production between the mill and the completion of the smelter operation. Inventories of copper concentrates are priced at the lower of cost or estimated realizable value, the latter based on the delivered price of refined copper less transportation, refining, selling and smelting costs. Blister copper produced by the smelter is sold under contract and is recorded as produced in "metal settlements receivable" at estimated realizable value.

3. UGANDA MINING ROYALTIES, COPPER EXPORT TAXES AND INCOME TAXES

Kilembe Copper Cobalt Ltd. is exempt from payment of Canadian income tax while it maintains its status as a "foreign business corporation" under the provisions of the Income Tax Act (Canada). The provision for Uganda mining royalties, copper export taxes and income taxes consists of:

	1968	1967
Provision for mining royalties	\$ 102,942	\$ 33,132
Provision for copper export taxes	112,080	
Provision for income taxes	1,064,400	768,060
	<u>1,279,422</u>	<u>801,192</u>
Adjustments in respect of prior years		209,647
	<u><u>\$1,279,422</u></u>	<u><u>\$1,010,839</u></u>

4. STATUTORY INFORMATION

Expenses in the statement of consolidated earnings and deficit include remuneration of directors and senior officers of \$8,573 in 1968 and \$8,170 in 1967.

